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Message Text

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12
ORIGIN ARA-20

INFO OCT-01 ADP-00 OPIC-12 EB-11 COME-00 TRSE-00 CIAE-00

INR-10 NSAE-00 RSC-01 SCEM-02 INT-08 L-03 /068 R

DRAFTED BY ARA/CEN:DAVID LAZAR:PW
7/18/73:29362
APPROVED BY ARA:HW:HLAUDEMAN
OPIC:GCOOPER (SUBSTANCE)
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R 192303Z JUL 73
FM SECSTATE WASHDC
TO AMEMBASSY TEGUCIGALPA
INFO AMEMBASSY GUATEMALA
AMEMBASSY SAN SALVADOR
AMEMBASSY SAN JOSE
AMEMBASSY MANAGUA

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E.O. 11652: N/A
TAGS: BDIS, HO
SUBJECT: TEXACO REFINERY - HONDURAS

1. AT REQUEST OF TEXACO AND AT SUGGESTION OF OPIC WITH WHOM THEY SPOKE EARLIER, JIM KINNEAR, SENIOR VICE PRESIDENT, AND MCNEIL WATKINS, GENERAL ATTORNEY, OF TEXACO MET ON 17 JULY WITH SHLAUDEMAN AND LAZAR TO DISCUSS SUBJECT PROBLEM.

2. TEXACO REPRESENTATIVES TOOK LOW KEY APPROACH, INDICATING THEY DID NOT WANT USG INTERVENTION BUT RATHER, IF ANYTHING, QUOTE PROBABLY WERE ASKING FOR NONINTERVENTION UNQUOTE. (SUBSEQUENTLY, AND ON DIFFERENT POINT, WATKINS READ WHAT HE CALLED A "CALVO" CLAUSE IN TEXACO-GOH REFINERY CONTRACT. COMMENT: THE CLAUSE HE READ CONTAINED NORMAL LANGUAGE SUBMITTING REFINERY OPERATION TO LAWS AND REGULATIONS OF HONDURAS, BUT DID NOT APPEAR TO WAIVE RIGHTS TO DIPLOMATIC REPRESENTATION OR USG RIGHT TO TAKE ACTION IN
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APPROPRIATE CIRCUMSTANCES. LATTER ISSUES WERE NOT

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MENTIONED IN CLAUSE WATKINS READ-) THEY INDICATED HISTORY OF THEIR ATTEMPTS TO BRING THIS MATTER TO ATTENTION OF GOH, INCLUDING CONVERSATIONS WITH BENNATON AND ESCOTO DIAZ, STATING THEY HAD BEEN UNSUCCESSFUL IN ATTEMPTS TO SEE PRESIDENT LOPEZ. THEY VOICED CONCERN THAT GOH IS NOT AWARE OF THE SERIOUSNESS OF THE PROBLEM.

3. THEY INDICATED REFINERY HAD NOT BEEN LOSING MONEY THUS FAR, SINCE THEY HAVE BEEN ABLE TO PURCHASE CRUDE AT REASONABLY FAVORABLE PRICE. THIS NO LONGER POSSIBLE AND NEXT SHIPMENT THAT ARRIVES (SCHEDULED FOR ABOUT AUGUST 20) WILL BE AT $4.07 BBL WHICH IS ABOVE PRESENTLY-CONTROLLED PRICE EX-REFINERY. THEY INDICATED THEY NEED AN INCREASE OF ABOUT 4 CENTS PER GALLON EX-REFINERY TO MAKE OUT.

4. APPARENTLY, ALTHOUGH THEY DIDN'T SAY SO DIRECTLY, THE MOST TROUBLESOME EFFECT OF THE DECREE OF LAST MAY WAS NOT THE PRICE ROLLBACK TO FEBRUARY LEVELS BUT RATHER IMPOSITION OF A CEILING PRICE AT THE REFINERY WHICH NEVER HAD BEEN DONE BEFORE. THUS, PREVIOUSLY, REFINERY HAD FLEXIBILITY TO PASS PRICE INCREASES ON ALONG THE DISTRIBUTION CHAIN TO THE FOUR DISTRIBUTORS (TEXACO, SHELL, CHEVRON AND EXXON). IN ANSWER TO OUR QUESTION, TEXACO REPRESENTATIVES SAID THEY HAD APPROACHED OTHER THREE DISTRIBUTORS ON PROPOSAL THAT EACH PROCURE ITS OWN SUPPLY OF CRUDE, BUT THAT OTHERS HAD "JUST LAUGHED." TEXACO REPRESENTATIVES INDICATED, HOWEVER, THAT ANOTHER APPROACH TO THE OTHER THREE DISTRIBUTORS FOR HELP IN SOME FORM WAS ANOTHER MOVE THEY ARE CONSIDERING. THEY ALSO SAID THEY ARE CONSIDERING SEEKING COOPERATION OF THE HONDURAN SHAREHOLDERS WHO ARE GUARANTEED A SEVEN PERCENT ANNUAL DIVIDEND UNDER THE REFINERY CONTRACT. THE PROBLEM HERE IS THAT THE HONDURAN SHARES ARE BEARER SHARES.

5. NEXT STEPS: TEXACO INTENDS TO SEND A CABLE FROM THE SUPPLIER OF CRUDE (ALSO A TEXACO SUBSIDIARY) TO THE REFINERY ADVISING THEM THAT THE NEXT SHIPMENT WILL COME IN AT THE NEW PRICE, US $4.07 BBL. THEY WILL INSTRUCT REFINERY MANAGER TO APPROACH GOH WITH THIS NEWS, INDICATING URGENT NEED FOR DECISION ON PRICE POLICY. IF NECESSARY, LIMITED OFFICIAL USE

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TALKS WOULD THEN FOLLOW BETWEEN GOH AND TEXACO U.S. REPS. TEXACO APPEARS MOST ANXIOUS NOT TO PROCEED PRECIPITOUSLY OR PAINT GOH INTO A CORNER. TO THIS END THEY PREVIOUSLY ADVISED GOH OF NEED FOR DECISION, SUGGESTING 45-DAY PERIOD AS REASONABLE, AND ARE NOW, IN EFFECT, GIVING THEM ANOTHER 30 DAYS.

6. EMBASSY ACTION REQUESTED: EMBASSY COMMENTS ARE

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SOLICITED ON APPROACH OUTLINED ABOVE. WE SUGGESTED TO TEXACO REPS PROBLEM WAS PROBABLY NOT LACK OF UNDERSTANDING (GIVEN BENNATON'S BACKGROUND) BUT RATHER DIFFICULTY OF WEIGHING ALTERNATIVES IN POLITICAL TERMS. DO YOU AGREE? IF SO, CAN TEXACO FORCE THE ISSUE IN MANNER CONTEMPLATED WITHOUT RISKING HONDURAN OVERREACTION? HOW DOES EMBASSY EVALUATE RISKS, FORCES IN PLAY? AS OPPORTUNITIES PRESENT THEMSELVES, EMBASSY SHOULD SEEK TO MAKE THE POINT, IN ITS CONTACT WITH GOH OFFICIALS CONCERNED WITH THIS PROBLEM, THAT THE PROBLEM IS REAL AND WILL NOT GO AWAY; THAT IT MUST BE FACED NOW AND EFFECTIVE ACTION TAKEN. WE SHOULD NOT TAKE THE SIDE OF THE REFINERY, OF COURSE, BUT MERELY POINT OUT TO THE HONDURAN OFFICIALS THAT DELAY IN FACING THE HARD ISSUES PRESENTED COULD WELL LEAD TO AN OUTCOME EVEN LESS DESIRABLE THAN THE ADMITTEDLY UNPLEASANT OPTIONS NOW OPEN TO THEM. RUSH

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